

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK RATIONALIZATION
SERVICE CHANGES, 2011

Docket No. N2012-1

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS WHITEMAN TO
AMERICAN POSTAL WORKERS UNION, AFL-CIO, INTERROGATORIES
APWU/USPS-T12-1-13**

The United States Postal Service hereby provides the responses of witness Whiteman to the above-listed interrogatories of the American Postal Workers Union, AFL-CIO, dated January 9, 2011. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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January 24, 2012

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APWU/USPS-T12-1. Would you agree that the estimated volume and revenue losses in your testimony are determined from the proposed change in the service standards and will take place regardless of whether any of the AMP studies are found to be feasible?

RESPONSE:

The estimated volume and revenue decreases will occur if the nationwide changes in the service standards for First-Class Mail™ and Periodicals mail as proposed in this filing, are implemented.

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APWU/USPS-T-12-2. Is it your understanding that the Postal Service plans to promulgate the new service standards before determining the final cost savings from a new network configuration?

RESPONSE:

I have no understanding that would allow me to answer this question.

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APWU/USPS-T-12-3. On page 3 of your testimony you indicate that the positive aspects that consumers have toward First Class mail [*sic*] come from it being “easy to use, dependable, safe and secure, and not costly.”

- a) How are consumers defining dependable in this instance?
- b) Was any of your research geared toward determining what consumers’ reactions would be to an increased uncertainty about the timing of mail delivery?

RESPONSE:

a. I have no reason to expect that consumers would apply anything other than a common understanding. Common dimensions to the definition of “dependable” include:

- you can count on it being delivered on time
- you can count on it being delivered safely
- you can count on it being delivered within a reasonable time.

b. The qualitative portion of the research was designed to assess what customers send and receive by First-Class Mail, how they perceive First-Class Mail service, their perception of and experience with First-Class Mail service, and their reactions to changes in the First-Class Mail service standards. In what we presented to customers to describe the changes in the services standards for First-Class Mail, we did not include anything which would indicate that the reliability of First-Class Mail service would change. Thus, we did not seek to determine “what consumers’ reactions would be to an increased uncertainty about the timing of mail delivery.”

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APWU/USPS-T-12-4. On page 4 of your testimony you indicate that many customers perceive that First Class mail [sic] service performance takes longer than the current service standards and actual service performance. Was any of your market research geared toward asking consumers about their response to use of the mail if a day was added to their actual service performance?

RESPONSE:

That could be a matter of conjecture. The research itself is fully documented by witness Elmore-Yalch and anyone interested can review those materials and develop an opinion. We focused the discussion on the proposed service standards for First-Class Mail. It needs to be noted that the proposed changes to service standards do not add a day to the service standards for all First-Class Mail.

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APWU/USPS-T-12-5. On page 4 of your testimony you state that with respect to First-Class Mail, consumers and small businesses “expect reliability, dependability, and reasonable speed of service at a low price.” Please provide the definitions for the following terms as used in your testimony and understood by consumers and small businesses:

- a) Reliability.
- b) Dependability.
- c) “Reasonable speed of service.”

RESPONSE:

These terms required no definitions in the market research; as such, respondents can be assumed to have used them as they are commonly understood. My definitions are as follows:

- a. Reliability: delivered consistently on time.
- b. Dependability: delivered on time, safely.
- c. “Reasonable speed of service:” delivered within a few days.

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APWU/USPS-T-12-6. You state on page 5 of your testimony that “most consumers and commercial organizations will accept the service standards changes if it is necessary to help the Postal Service regain its financial stability.”

- a) In your research were the service standard changes presented to consumers as a method of ensuring the financial stability of the Postal Service?
- b) Were the service standard changes presented as being necessary to “save” the Postal Service?

RESPONSE:

a. In the focus groups and in-depth interviews, customers were provided with information (repeated below) describing both the reasons for the proposed changes to the service standard changes for First-Class Mail and Periodicals mail and the specific changes to the service standards. As can be seen, we indicated that the service standard changes were being considered as a way to “address the budget deficits.” See Appendix D and Appendix E in USPS-T-11.

As a result of declining mail volume, the cost to continue providing this level of service is becoming unsustainable, contributing to major budget deficits for the Postal Service. In the past two years, the Postal Service has had budget deficits of over \$8 billion and expects to have a similar budget deficit this next year. To address the budget deficits, the Postal Service is exploring several changes, including

- Legislative reform to change government requirements to pre-pay health and 18 pension benefits
- Eliminating Saturday mail delivery to homes and businesses 20
- Closing many small post offices while shifting retail access to alternative locations and channels

The Postal Service is also considering revising the service standards for First-Class Mail within the continental U.S.

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- Delivery in your local area now delivered the next delivery day will be delivered on the second day
- Delivery outside the local area up to 200 miles which now takes 2 days will continue to be delivered on the second day.
- Delivery to destinations 200 to 1,000 miles which now takes 2 days will take 3 days
- Delivery to destinations over 1,000 miles which now takes 3 days will continue to 30 take 3 days

For those living in Alaska and Hawaii, delivery to anywhere in the continental U.S. will continue to take 4 days.

In addition, local Periodical Mail, primarily newspapers, is currently transported along with First-Class Mail. The proposed change will mean that local delivery of this mail now delivered on the next day will be delivered on the second day. All other Periodical Mail delivery schedules will not be affected.

b. As noted above, we discussed the service standard changes as a way to address the financial situation of the Postal Service. Customers discussed their reactions in many ways; one point of view expressed was that if this change would help the Postal Service solve its financial problems and help it to continue to serve the American public, then it was something the Postal Service had to consider. As I wrote on page 5 of my testimony, "Many said that the Postal Service was too important to them to risk not supporting steps needed to ensure that it continues to operate."

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APWU/USPS-T-12-7. Would you agree that focus groups cannot be used to provide a statistically sound estimate of volume losses?

RESPONSE:

Focus groups are used to discuss conversationally with customers their reactions to a variety of topics including the following:

- a new or improved product
- a new or improved channel
- a change in service
- new advertising

In our research, we wanted to discuss customers' current mailing behavior and their reactions to changes in the service standards for First-Class Mail and Periodicals mail. Qualitative research is not designed and cannot be used to develop statistical derived point estimates of a marketplace response that can readily be replicated, nor did we use the qualitative research to develop a quantitative estimate of the volume impact. As witness Elmore-Yalch states on page 6 of her testimony, USPS-T-11:

Qualitative research is effective in drawing out participants' attitudes, feelings, beliefs, experiences, and reactions in a way which is not feasible using other methods. The specific objectives of this phase of the research were to:

- Improve understanding of the various ways consumers and businesses would respond to changes to First-Class Mail (e.g., changes in mailing patterns, switching to competitors or other Postal Service products, increased use of online billing/payment, etc.) and local newspapers

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- Understand why consumers and businesses would respond as they do
- Assess how consumers and businesses would adjust their routines or operations to accommodate changes to First-Class Mail service standards
- Assess how difficult business adjustments would be and improve understanding of the challenges businesses would face and how their operations would be affected
- Assess perceptions of Postal Service reasons for changes to First-Class Mail service standards.

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APWU/USPS-T12-8. On page 7 of your testimony you indicate that “qualitative research indicates that customers could make changes to their mailing practices by diverting mail volume to the internet and competitive shipping companies.” What information was given to consumers about a potential change in the service standards of the Priority and Express mail products?

RESPONSE:

Our description of the proposed changes to service standards has no mention of changes to the service standards for Express Mail™ or Priority Mail™. Nor did we mention any changes in service standards for Express Mail or Priority Mail during the focus group discussions or the in-depth interviews.

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APWU/USPS-T12-9. On page 8 of your testimony you state that most consumers and commercial organizations “would prefer the changes in service standards to significant price increases.”

- a) Please define “significant price increases” as used in your testimony and understood by the qualitative market research participants.
- b) Were participants to assume that rates currently charged for First Class mail [*sic*] products would not increase as a result of the change in service standards?

RESPONSE:

- a. The term was neither defined nor overtly raised with respondents.

However, my understanding and expectation would be that a significant price increase for First-Class Mail would be more than what customers have recently experienced, *i.e.*, \$.01-\$.02. A price increase of \$.05 most definitely would represent a significant price increase while many would also consider a price increase of \$.03, or 6.8 percent over the \$.44 price, significant.

- b. There was no discussion in the focus groups or in-depth interviews that, tied the implementation of the service standard changes either to an increase or the absence of an increase. However, customers likely assumed logically that, implementation of the service standard changes could help the Postal Service save money and thereby forestall price increases.

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APWU/USPS-T-12-10. Ms. Elmore-Yalch's Figures 42-47 show that the use of Priority and Express mail products by Preferred accounts, Home-Based businesses and Consumers would decline by as much, or in some cases, much more than the percentage decline in First Class mail [*sic*].

- a) Based on your long experience in postal market research, how do you explain such a large impact on products whose service standards are not being changed?
- b) On Table 1 of your testimony, the largest impact from these proposals appears to be the expected 5.3% decline in Priority and Express Mail. Given that these products are part of the Postal Service's rapidly growing shipping services segment, did you ask further questions to determine what actions the Postal Service could take to reduce or eliminate this result? If so, what did you ask and what did consumers tell you?

RESPONSE:

- a. Express Mail and Priority Mail volume impacts, when reported in percentage terms, appear larger than the actual volume and revenue impacts and were a secondary focus of the market research. The primary focus of the market research was the impact on First-Class Mail, Standard Mail, and Periodicals mail.

The market research estimates the overall revenue impact at \$1.340 billion and the estimated impact from Express Mail and Priority Mail is less than 25 percent of this estimate. Further, the quantitative research was not designed to evaluate reasons for the estimated volume impact. It is entirely reasonable to expect that the actual impact, when the Network Rationalization Plan is implemented, will be less than estimated from the market research.

An explanation for why the combined percentage decrease for Express Mail and

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Priority Mail is larger than the percentage decrease for other products can be found in the impact of the small volume bases for these two products. For example, if a small business ships 10 pieces of Express Mail a year and, as a result of the implementation of the Network Rationalization reduces its volume to 9 pieces a year, the resulting percentage decrease may appear large at 10 percent. If that same small business ships 12 pieces of Priority Mail a month and, as a result of the implementation of the Network Rationalization, reduces its volume to 11 pieces a month, the resulting percentage decrease would be 8.3 percent. Thus, even the smallest possible volume decreases for Express Mail and Priority Mail would appear to produce a “high” percentage change.

b. In quantitative research, you do not know the results of the survey until the interviewing is completed and the data has been processed and analyzed. Thus, it is not possible to ask additional, follow-up questions to try to understand why the results are what they are.

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APWU/USPS-T-12-11. On Table 1, you show no change in the expected use of the Postal Service for parcel products. However, Ms. Elmore-Yalch's research did not ask any questions about parcel products. How did you determine that there would be no impact on these products?

RESPONSE:

As we did not include any of the basic package services in the quantitative research, I had no basis for calculating any changes in the volume for these products.

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APWU/USPS-T12-12. Please provide the steps that you used to weight up the results from Ms. Elmore-Yalch's research that allowed you to produce Chart 1 in your report including any assumptions you made about weighting the different segments together.

RESPONSE:

The steps I followed in producing the estimates of the changes in the volume, revenue, and contributions are detailed in Appendix B in my testimony. In addition, the actual calculations are shown in library reference USPS-LR-N2012-1/NP-1.

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APWU/USPS-T-12-13. Given the impending market dominant rate adjustment, scheduled for January 22, 2012, and the ongoing Postal Service request for an exigent rate increase (Docket No. R2010-4(R)), do any of volume, revenue and contribution estimates change if the rates for each product increase? If so, how?

- a) Were any of the market research participants informed of the rate increase expected on January 22, 2012? If not, please provide an explanation for why this was not explained to market research participants.
- b) Were any of the market research participants informed of the possible rate increase if the Postal Service receives approval for the exigent rate increase proposed in Docket No. R2010-4(R)? If not, please provide an explanation for why this was not explained to market research participants.

RESPONSE:

The market research was conducted without consideration of price increases on any particular date. In addition to their being uncertain during the research period, this research was not for the purpose of studying those price changes.